The Humboldt Economic Index measures changes in the local economy using data from local businesses and organizations. The data are compiled into a seasonally adjusted Index that shows changes relative to the base month (January 1994). The composite Index is a weighted combination of six individual sectors of the local economy. The current Index is based on the most recently available data, which is generally data from the previous month.

The Composite Humboldt Economic Index declined 2.7 percent in February, driven by sizable declines in Manufacturing, Retail and Hospitality. The Index was buoyed only by Home Sales as Employment gained a negligible 0.7 percent. The increase in Home Sales may be driven more by an increase in foreclosures rather than by implicit health in the real estate market since our Home Sales Index is based only on the number of homes sold in the month. This Index is discussed in further detail in the Home Sales section below.

### Composite & Sectors

<table>
<thead>
<tr>
<th>Index</th>
<th>Value*</th>
<th>Percent Change From:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Last Month</td>
</tr>
<tr>
<td>Composite</td>
<td>108.3</td>
<td>-2.7</td>
</tr>
<tr>
<td>Home Sales</td>
<td>111.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>163.6</td>
<td>-8.1</td>
</tr>
<tr>
<td>Hospitality</td>
<td>80.3</td>
<td>-5.0</td>
</tr>
<tr>
<td>Electricity Consumption</td>
<td>118.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Total County Employment</td>
<td>106.1</td>
<td>0.7</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------</td>
<td>-----</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>67.5</td>
<td>-9.2</td>
</tr>
</tbody>
</table>

* These values are adjusted to remove seasonal fluctuation. The base month is Jan. of 1994, with an Index value of 100.

** The percent change from the same month one, five and ten years ago.

### Key Statistics

<table>
<thead>
<tr>
<th>Median Home Price*</th>
<th>Mortgage Rate†</th>
<th>Unemployment Rate‡</th>
</tr>
</thead>
<tbody>
<tr>
<td>$309,000</td>
<td>5.875 %</td>
<td>5.1 %</td>
</tr>
</tbody>
</table>

* Home price data are provided by the Humboldt Association of Realtors. MLS is not responsible for accuracy of information. The information published and disseminated by the Service is communicated verbatim, without change by the Service, as filed with the Service by the Participant. The Service does not verify such information provided and disclaims any responsibility for its accuracy. Each Participant agrees to hold the Service harmless against any liability arising from any inaccuracy or inadequacy of the information.

† 30 year owner occupied conforming conventional fixed rate provided by Umpqua Bank.

‡ Seasonally adjusted Humboldt County unemployment rate is based on non-seasonally adjusted preliminary EDD data.

### Leading Indicators

#### Leading Indicators

<table>
<thead>
<tr>
<th>Change from Prior Month*</th>
<th>Unemployment Claims</th>
<th>Help Wanted Advertising</th>
<th>Building Permits</th>
<th>Manufacturing Orders</th>
</tr>
</thead>
<tbody>
<tr>
<td>-15.4</td>
<td>4.7</td>
<td>-63.6</td>
<td></td>
<td>not available</td>
</tr>
</tbody>
</table>

* All values are seasonally adjusted.

The Index tracks four leading indicators to get a sense of the direction that the county economy may take in the near future. The four leading indicators are (1) number of claims for unemployment insurance, (2) help wanted advertising, (3) building permits, and (4) expected manufacturing orders. The graphs in this section use a four-month moving average of seasonally adjusted index values in order to demonstrate the overall trend in the data with less monthly volatility.

The seasonally adjusted Index of Unemployment Claims is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The seasonally adjusted Index of unemployment Claims dropped 15.4 percent in February. This is a good sign as it indicates fewer unemployed in the county. This parallels the drop in the ranks of the unemployed and the increase in the number of jobs in the county which is discussed further in the employment section below. The downward movement in this Index, however has not eliminated the buildup that has taken place during recent months. The upward trend in the four month moving average is very clear. Unless this month's decline continues, the upward trend apparent in this Index may indicate a slowing in economic activity in the local area, which is further suggested by the trend in the Index of Building Permits Issued, discussed below.
The seasonally adjusted Index of Help Wanted Advertising is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

The seasonally adjusted Index of Help Wanted Advertising increased slightly this month, adding 4.7 percent after a 6.9 percent gain last month. This is rather encouraging as the national employment picture also remains strong, however the four month moving average of the Help Wanted Index is trending somewhat downward. If a stronger downward trend appears, or if the upward movement of the last two months is sustained, then this will be more instructive about the future of the local labor market.

The seasonally adjusted Index of Building Permits is represented above by the blue area. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.

Our seasonally adjusted Index of Building Permits issued is a leading indicator reflecting levels of construction in coming months as well as serving as a proxy for expected economic activity on the reasoning that it reflects the level of planned investment by county businesses in new construction. This indicator is beginning to have the appearance of a downward trend. The decline this month was a sizable 63.6 percent, but even more concerning is the appearance of a downward trend over the last several months. This may forebode a slowing of construction in coming months and indicate a lowering of expectations about economic activity in the county in recent months on the part of business planners.

### Leading Indicators

#### Individual Sectors

**Home Sales**

The Index value of the home sales sector is based on the number of new and existing homes sold in Humboldt County each month as recorded by the Humboldt Association of Realtors.

The Home Sales Index rose 3.8 percent in March, a small reprieve after last month’s more dramatic decline of 7.1 percent. The Home Sales Index has never recovered from the last six months of 2005 when the Index collapsed from 149 to 91. This decline erased all the gains the Index had made over more than a decade. Since that time, the Index has recovered only to 111.

In addition to this, looking forward, there are serious reasons for concern about the housing market in Humboldt County as well as at the national level. According to the monthly report of RealtyTrac, an online marketplace for foreclosures, foreclosures in Humboldt County are up 150% over last year and up a third in the last month. Since our Index is based on the number of sales in a given month, a rise in foreclosures may buoy our Index in spite of the fact that it is a cause of concern for the housing market.
Foreclosures are on the rise at the national level as well. This is exacerbated by the crisis in sub-prime lending. Many Americans bought homes in recent years with exotic and high risk mortgages, some of which involved little or no down payment and interest rates which will be adjusting upward in the months ahead. Many of these buyers have no equity in their homes since their mortgage is greater than the market value of their house. This prevents them from being able to escape their mortgage if payments become unmanageable, either due to an upward adjustment in the interest rate, or other adverse circumstances.

This problem is further complicated because the foreclosures it causes will put downward pressure on prices, which in turn will place more homeowners in jeopardy of foreclosure. In this way, the problem is self perpetuating. The response of mortgage lenders to the crisis in these high-risk mortgages is to tighten lending standards. This may remove many potential buyers from the market and add to downward pressure on prices.

Of course, the housing price "bubble" led to misallocation of resources in the economy in recent years, so returning to pre-bubble prices is desirable. Nothing increases affordability to current and future homebuyers like a drop in prices. As with any asset, a drop in the price of houses is only undesirable from the sellers' point of view. For half the market (the buyers) a drop in house prices is a welcomed sight.

All of these interlocking forces may be affecting the Humboldt County real estate market to a lesser or greater degree. Although, in itself it is not conclusive, the evidence from RealtyTrac that foreclosures in Humboldt County are two and a half times above last year's level is a cause for concern. If these interlocking forces come to bear heavily on the local real estate market, the effect could be dramatic.

Over the last 12 months, the median sales price of houses in Humboldt County fell an astonishing 10 percent, and 12.2% after adjusting for inflation. From January to February, the median sales price of homes in Humboldt County rose a meaningless one third of one percent from $308,000 to $309,000. At the same time the interest rate on a 30 year fixed rate mortgage fell from 6 percent to 5.875 percent. **Freddie Mac**, the nation's largest mortgage lender, reports that the average rate in the nation on a 30 year fixed rate mortgage now stands at 6.17 percent with four tenths of a point.
Aside from the local housing market, the California and national markets are showing large increases in foreclosures as well. Sean O'Toole, founder and CEO of Foreclosure Radar reports that foreclosures sold at auction now represent 15 percent of all home sales in California. This is a remarkable development in the state's real estate market, and is a serious cause for concern. With 15 percent of sales consisting of foreclosed homes sold at auction, total sales rose 6.2 percent over last month according to the California Association of Realtors. The price of the median home sold rose 1 percent over last month's value and now stands at $564,700.

The National Association of Realtors reports that total sales of existing homes, including condominiums, in the US rose 3.9 percent over last month. At the same time, the median sale price rose 1 percent to $212,800 in February from $210,600 in January.

For a local perspective on the possibility of a housing bubble, visit our Special Projects page for a study of the Humboldt County housing market. Also, visit the Humboldt Real Estate Economics Page.

Retail Sales

The Retail Sales Index performed weakly in March, falling 8.1 percent. This was the second weakest sector in the month. This decline eliminated a sizable portion of last month's 12.9 percent gain. More important than monthly fluctuations in this Index is the long term trend. For many years this Index has been unable to break through a ceiling around 150 for more than a month at a time. Last September the Index surged above 150 and has remained in record territory ever since. The decline this month leaves the Index well above 150, and is still the third highest month on record. In all the trend in recent months is toward a dramatic increase above its historic levels. Only if the decline is sustained will it be a serious cause for concern.

Hospitality

The Index value of the hospitality sector is based on seasonally adjusted average occupancy each month at a cross section of local hotels, motels and inns.

The seasonally adjusted hospitality index is represented by the blue area in the graph above. The red line shows the four month moving average which attempts to demonstrate the overall trend in the data with less monthly volatility.
In March, the Hospitality Index dropped an additional 5 percent after shedding 11 percent last month. This brings this fairly stable Index to quite a slide in recent months from over 100 to 84.5. This is a low value for this Index, which usually fluctuates between a little under 90 and a little over 100. The Hospitality Index has not been this low since 2004.

**Gasoline Prices**

Gas prices, according to the American Automobile Association, ratcheted up in the County and in California as a whole, although paradoxically the Northern California price remained unchanged. This occurred as Southern California gas prices spiked, bringing the state average above three dollars again. Eureka prices added fifty-six cents to come to $3.25. Northern California prices remained at $2.70, and in the state as a whole prices added forty-five cents to $3.11.

For a local perspective on gasoline prices, visit our Special Projects page for our study of the Eureka gasoline market and an examination of why Humboldt County gas prices tend to be higher than the rest of California's.

### Gas Prices

<table>
<thead>
<tr>
<th>Prices as of 03/2007</th>
<th>Average Price*</th>
<th>Change from Previous Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eureka</td>
<td>3.25</td>
<td>0.56</td>
</tr>
<tr>
<td>Northern CA</td>
<td>2.70</td>
<td>0.0</td>
</tr>
<tr>
<td>California</td>
<td>3.11</td>
<td>0.45</td>
</tr>
</tbody>
</table>

* Current average price per gallon of self-serve regular unleaded gasoline as reported by the American Automobile Association monthly gas survey ([www.csaa.com](http://www.csaa.com)).

### Electricity Consumption

The Index value of this sector is based on seasonally adjusted kilowatt-hours of electricity consumed each month in Humboldt County. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, increases in energy efficiency and conservation reduce the sector’s index value, while not necessarily indicating a decline in economic activity. Because we collect our data for this sector quarterly, values are estimated, and are revised when the quarterly data are received.

The Electricity Consumption Index declined to a value of 118.2 as of December. This was the most recent month in which data was available and continues a slide begun in February when the Index was at a peak of 140.1. 2006 was a year of declining consumption, as 2005 ended with an Index value of 148.4. Electricity consumption is a somewhat mixed indicator of economic activity. Increased consumption is generally consistent with expanding economic activity, but decreased consumption may be a result of conservation rather than decreased economic activity. Since energy prices were high for much of the year, conservation may be a large part of the explanation for the decline in consumption during 2006.

### Total County Employment

The Index value of the employment sector is based on seasonally adjusted total employment as reported by the Employment Development Department.

The Employment Index was weakly positive in March, adding 0.7 percent. All the same, this made the Employment Index the second best performer this month, right behind Home Sales. Humboldt County added 600 jobs in February, as 500 people joined the labor force and an additional 100 people who were already seeking work found jobs. The largest gains were in local government employees and farm employees. The largest loss was from state government education workers.

In March, according to the Bureau of Labor Statistics, the US unemployment rate fell to tie last November's five and a half year record low of 4.4 percent as the US economy added a surprising 180,000 jobs this month. This represents continued...
strength in a national labor market that has been performing well for some time now. It also came in spite of growing signs of
trouble in the nation's housing market, as well as other signs of sluggishness in the national economy. The bulk of the jobs
 gained came in construction, retail, education and healthcare. As jobs were added in March wages also rose, giving a boost to
consumers, many of whom are feeling a burden from falling home prices and upward adjusting mortgage payments.

Lumber Manufacturing

The index value of this sector is based on a combination of payroll employment and board feet of lumber production at major
county lumber companies and is adjusted to account for normal seasonal variations. Lumber-based manufacturing generates
about 55 percent of total county manufacturing employment.

After February's sizable advance, the manufacturing Index in March retreated. It was this month's largest decliner at -9.2
percent. As such, this Index was one of the largest contributors to this month's composite Index decline. More significantly, this
Index is showing a clear downward trend over the last two years. The last six to eight months have also begun to show a
definite decline, with the four month moving average showing a fairly steep downward slope. Over the long run this Index has
also been declining for many years, suggesting Humboldt County lumber-based manufacturing is an industry in long term decline.

National manufacturing, as reported by the Institute for Supply Management, a trade group of purchasing executives, is
stronger. ISM reports that manufacturing grew in March, although more slowly than in February. January represented the first
decline in national manufacturing reported by the ISM in several years.

Leading Indicators | Individual Sectors | Home Sales | Gasoline

Explanatory Note: For those of you who are new or less familiar with the Index, we have been
tracking economic activity since January 1994. The composite indices plotted as blue and red lines in
the diagram at the top of this page are weighted averages of each of the six sectors described in the
table above. Each sectoral index, and the composite index, started at a value of 100 in 1994. Thus if
the retail sectoral index value is currently 150, that means that (inflation-adjusted) retail sales among
the firms that report data to us are 50 percent higher than in January 1994. We also seasonally adjust
each sector, and the composite index, to correct for "normal" seasonal variation in the data, such as wet season vs. dry season, and so trends in the seasonally-adjusted composite index provide a better indication of underlying growth and fundamental change in the economy. Each month's report reflects data gathered from the previous month. For example, the "August 2006" report reflects data from July 2006. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

Cited References:

American Automobile Association
Bureau of Labor Statistics
California Association of Realtors
Freddie Mac
Institute for Supply Management
National Association of Realtors

Send us your comments. Comments will be posted on our Reader Comments page unless otherwise requested.

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